

## **ROLE OF BANKING SECTOR IN THE DEVELOPMENT OF SMALL SCALE INDUSTRIES-A CASE STUDY ON KRISHNA DISTRICT, ANDHRA PRADESH**

**G. RAMAKRISHNA<sup>1</sup> & P. PURNACHANDRA RAO<sup>2</sup>**

<sup>1</sup>Department of Commerce and Business Administration, Acharya Nagarjuna University, Andhra Pradesh, India

<sup>2</sup>Department of Tourism and Hospitality Management, Acharya Nagarjuna University, Andhra Pradesh, India

### **ABSTRACT**

Industrial development becomes incomplete without the development of Small Scale Industries, since this sector provides opportunity to utilize the abundant manpower and unexploited resources. The importance of the growth and development of small scale sector significantly increased. For the development of any activity, the supply of credit is one of the foremost components which play a decisive role in accomplishing the task. The banks have therefore a very important role to play in the development of various sectors of economy by providing necessary financial assistance for various activities. This present paper deals with role of banking sector in the growth of SSIs (Small Scale Industries) sector and we proposed some suggestions for better performance of banks in Krishna District region, Andhra Pradesh, INDIA for the development of Small and Medium Enterprises.

**KEYWORDS:** Small Scale Industries, Financial Institutions, Nationalized Banks

### **INTRODUCTION**

Development banks are the money related orgs which give medium and long haul monetary support and go about as reactant specialists in advancing adjusted advancement of the nation. There are various banks and money related establishments which effectively and successfully assembles and assigns assets to quicken the development of economy and to advancement entrepreneurial aptitudes. For quite a long time, India has been creating an extensive assortment of expressions and crafted works which demonstrate more progressed financial and budgetary association than alternate nations.

After independence for a secured economy it is understood that the small scale segment was an essential device in occupation era, esteem creation and neediness assuagement. Small scale commercial enterprises are by and large artisan based, spotted for the most part in the rustic territories and semi-urban regions. These commercial ventures use neighborhood abilities and assets and offer their items generally. After the declaration industrial policy resolution of 1948, Small Scale Industries has possessed a conspicuous place in the general procedure of modern advancement of India. Partly, the Industrial financial corporation of India Limited (IFCI) was set up in an act of parliament with a view to providing medium and long haul credit to units in the corporate sector and industrial concerns. To cater the needs of small and medium enterprises, State Financial Corporation (SFCs) established in 1951 by an Act.

At all India level National Small Industries Corporation (NSIC) was set up in 1955 to extend the support to small industries by various promotional activities, such as for example assistance in securing orders, marketing the merchandise of SSIs, arranging for the supply of machinery and training of industrial workers. Generally speaking finance is a

significant input of production, distribution and development. But considering the main element role, finance plays in accelerating the method of small scale industries development, the sum total amount loan sanctioned to it forms a really significant the main total loan to Indian industry as a result of inadequate credit of the viability of the system is affected greatly and it results within their sickness and ultimate closure. The flow of credit to the little scale sector is affected as a result of “a poor financial base, which eventually prompts the Entrepreneurs to create in funds by way of loan.

Because of the above mentioned the scarcity of finance and credit is the key obstacle in the development of small-scale units, which results sickness of SSI and ultimate closure. The current study is anticipated to affect formal financial intermediaries to SMEs, especially the commercial banks, management of the SME industry, academia and the typical public.

## **STATEMENT OF THE PROBLEM**

In most jurisdictions, commercial banks as a group are the main source of external finance for SMEs. Therefore, it is essential that the banking system be prepared to extend credit to the SME sector. However, there are number of rigidities of a macroeconomic, institutional and regulatory nature that may bias the entire banking system against lending to SMEs. Banks are unwillingly to support operations of SMEs due to varied problems. A common problem is the unwillingness of banks to increase loan funding without an increase in the security given; which the SME owners who most of the time are entrepreneurs and sole proprietors may be unable to provide. About 90% of small firms are refused loans when applied for from the formal financial intermediaries, due to inability to fulfill conditions which results the reduction in development of SSIs

It is therefore opportune to assess the challenges being faced by SMEs and banks in giving loans to this sector with specific reference to on the role of banking in Krishna district and to find appropriate and workable means of financing in the industry.

## **OBJECTIVES & METHODOLOGY**

### **Objectives**

- To ascertain the positive and/or negative impact of financing on this business growth and development of SMEs in Krishna District region.
- To ensure the factors that influences the financing of SMEs by all Banks in Krishna District region.
- To identify the barriers that commercial banks face in the financing of SMEs.
- To suggest how best to improve access of funds to SMEs by Banks.

### **METHODOLOGY**

The data has been collected from secondary sources comprising of MSME annual reports and Ministry of Commerce, Government of India from the period from 2000-01 to 2013-14. The collected data has been classified and analyzed in a systematic manner. For analysis, statistical tools like Percentages, Annual growth rate are used to find out the objectives of the study.

## RESULTS AND DISCUSSIONS

Investment limits were enhanced with the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act 2006. **Government of India** has unveiled a policy best suited for the micro, small enterprises with the objective to achieve 15 per cent annual growth rate, increase employment generation, create congenial and hassle-free environment, help the small scale industrial sector to acquire new technology and skills, improve the export performance, promote linkage between the large and small scale sector and to promote an appropriate institutional mechanism to revive sick industries.

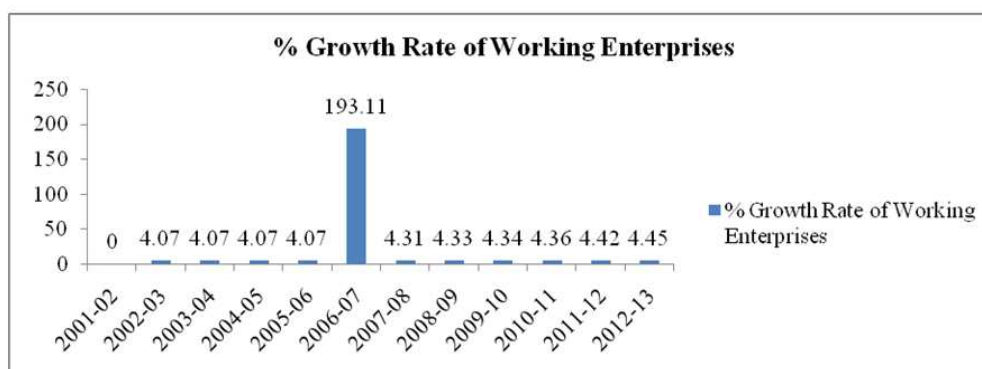
Government of India in its XII Plan document highlighted the importance of industry sector in enhancing growth avenues and providing employment. Improving manufacturing sector is identified as the key strategy to push growth in industry sector.

The Bank's SME policy is based on the broad guidelines of Government of India as per the MSMED Act, 2006, which came into force w.e.f. 2<sup>nd</sup> October, 2006. With that the year wise growth rate of SSIs in India from 2001 to 2013 has been shown in Table 1 and in Figure 1.

**Table 1: Year Wise Growth and Growth Rate of Small Scale Industries in INDIA from 2001 to 2013**

Sl. No.	Year	Total Working Enterprises (in Lakh)	Growth Rate (%)
I	II	III	IV
1	2001-02	105.21	0
2	2002-03	109.49	4.07
3	2003-04	113.95	4.07
4	2004-05	118.59	4.07
5	2005-06	123.42	4.07
6	2006-07	361.76	193.11
7	2007-08	377.36	4.31
8	2008-09	393.7	4.33
9	2009-10	410.8	4.34
10	2010-11	428.73	4.36
11	2011-12	447.66	4.42
12	2012-13	467.56	4.45

#Source: MSME Annual Report 2013-14.



**Figure 1: Year Wise Growth Rate of Working Enterprises**

From the above table and chart, it is indicating that the year wise growth and growth rate of SSIs in India since a decade i.e., from 2001 to 2013 in the form of total working enterprises has been represented in the above table. In the year 2001, numbers of small enterprises are increased to 105.21 Lakhs due to government policies and resolutions. It belongs to 9<sup>th</sup> Five Year Plan period. The development of infrastructural facilities by integrated Infrastructure Development Centers may also causes the enhancement in the SSIs. It has been further increased 4.07 percent consistently upto 2005-06 as yearly growth. That is, approximately 18Lakhs of working enterprises have been recognized. With the initiation of MSME Act, 2006, there is rapid growth in total number of working enterprises occurred upto 193.11 percent when compared to the 2005-06 which will be a revolutionary change in growth of industries and industrialisation. Afterwards even by giving term and working capital loans, RBI instructions on collateral free loans, launching of National Manufacturing Competitiveness Programme (NMCP) there is no such rapid growth in working enterprises. It has a consistent growth of 4.5 percent approximately per year up to 2013.

**Table 2: Micro Small and Medium Enterprises established in Andhra Pradesh**

District	Up to March, 2013			During 2013-14			Total	
	Units (No.)	Investment (Rs. Crore)	Employment (No.)	Units (Nos.)	Investment (Rs. Crore)	Employment (Nos.)	Investment (Rs. Crore)	Employment (Nos.)
Srikakulam	4813	417.07	49666	51	39.72	898	456.79	50564
Vizianagaram	3848	433.89	39334	55	28.24	1384	462.13	40718
Visakhapatnam	7516	3485.67	129278	497	470.96	11815	3956.63	141093
East Godavari	10756	1853.00	118832	164	128.83	1789	1981.83	120621
West Godavari	7020	700.79	73017	119	110.09	1914	810.88	74931
Krishna	4933	639.4	49497	322	238.81	6868	878.21	56365
Guntur	6127	607.43	67516	295	237.67	3854	845.1	71370
Prakasam	23111	3769.71	255471	274	258.04	4119	4027.75	259590
SPSNellore	5126	405.28	50899	112	98.3	1697	503.58	52596
YSR	11961	1152.43	112385	113	77.62	1320	1230.05	113705
Kurnool	4018	368.46	38507	79	56.4	861	424.86	39368
Anantapuramu	6817	346.64	55610	150	124.79	2073	471.43	57683
Chittoor	8055	771.14	84312	172	92.47	2186	863.61	86498
<b>Andhra Pradesh</b>	<b>104101</b>	<b>14950.91</b>	<b>1124324</b>	<b>2403</b>	<b>1961.94</b>	<b>40778</b>	<b>16912.85</b>	<b>1165102</b>

The State Government of Andhra Pradesh has come up with an Industrial Investment Promotion Policy 2010-15 with various Incentives/Concessions to new industries set up in the State. The Government is striving towards creation of quality infrastructure coupled with congenial industrial environment in the State to make Andhra Pradesh an attractive destination for both foreign and domestic investors. As a part of facilitation through e-Governance, 8 services for the sanction of industrial incentives pertaining to Industries Department are brought under “Mee- Seva” with effect from 15 July 2013. Special emphasis is given for establishment and enhancing production capacities of Micro, Small & Medium Enterprises with huge employment potential. In order to create hassle-free environment for the investors, Government of Andhra Pradesh is effectively implementing Single Window Act and arranging various industrial clearances within the set time frame period.

In Andhra Pradesh 104101 Micro, Small and Medium Enterprises were established providing employment to 1124324 persons involving an investment of Rs.14950.91 Crore up to March, 2013. 2403 Micro, Small and Medium Enterprises were established providing employment to 40778 persons involving an investment of Rs.1961.94 Crore during 2013-14 Details of district wise Micro Small and Medium Industries established, investments made and employment generated are shown in Table 2 and in Figure 2.

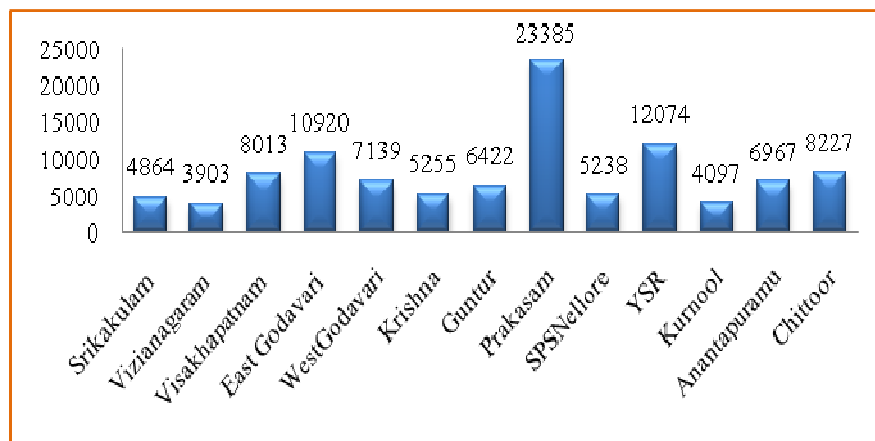


Figure 2: SSI Units Established Upto 2013-14 in All Districts of Andhra Pradesh

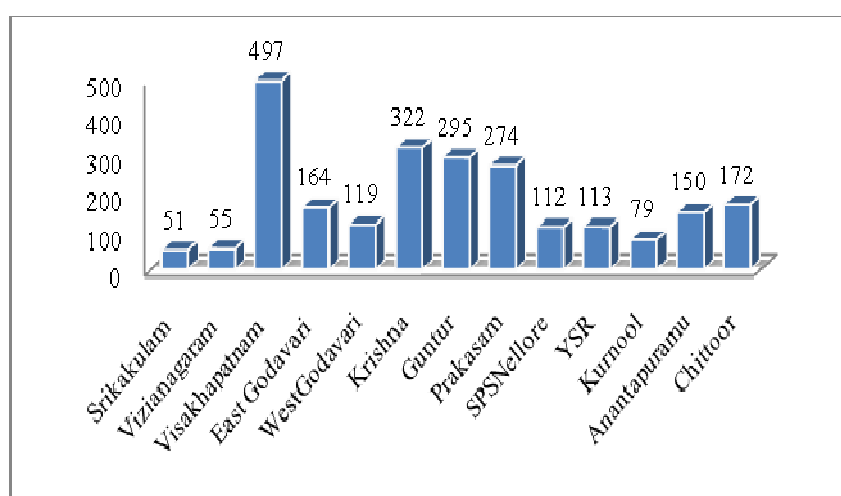


Figure 3: Establishment of New SSIs during 2013-14

From the above Table implicates that there is no such growth in the Krishna district in establishment of small scale industries when compared to all other districts. But in the year 2013-14 there is good enhancement from Figure 3 in establishment of new industries because of the work and initiations of the Government policies and the banks advertisement to the people. Upto 2013, there are much number of industries is established in Prakasam, YSR Kadapa and East Godavari districts when compared to the referred Krishna District. Though there are much number of environmental facilities and resources available, there is no such growth is recorded. When compared to all Districts, Srikakulam and vijayanagaram and Kurnool districts are very poor in establishing of new small scale industries. In total of 1,06,504 units the maximum proportion is occupied by the Prakasam district and Krishna district occupies only 5% in total units of Andhra Pradesh.

So, it is clear that there is much more vacuum exists in industrialization in Krishna district. The infrastructural facilities and resources are very good to initiate industries with help of financial institutions like banks in the areas of

- Mango pulp units
- Fruit processing
- Rice mill

- Mini dairy form
  - Hawai Chappals
  - Bolts and nuts
  - Wire nails
  - Tractor trailer and Agricultural implementers
  - Automobile components
  - Handicrafts
- a) Gold covering jewellery, b) Kondapalli Toys, c) Kalamkari Printing, and d) Musical Instruments
- As per the establishment of number of new units the above sectors are the best to install in the Krishna district region. In the Krishna district there are 295 Nationalised Banks Branches, 32- Private Bank Branches, 49-Cooperative Bank Branches and 29-RRBs including APSFC were established to meet the financial needs of the mankind at various mandals and villages.
  - By examine the performance of the all types banks towards the Small Scale Industries, the below Table 3 shows the targets and achievements of various financial institutions from the year 2005-06 to 2013-14.

**Table 3: Performance District towards SSI of Banks in) Krishna Rs. in Thousands**

Year	Nationalized Banks		Private Banks		RRBs/Co-Operative Banks					
					APSFC		KDCC Bank		Saptagiri Grameena Bank	
	Target	ACHMT	Target	ACHMT	Target	ACHMT	Target	ACHMT	Target	ACHMT
2005-06	23095.33	19509.22	3095.24	652.22	5752.69	1659.72	937.68	520.3	901.35	29.84
2006-07	20662.83	20671.24	1567.15	2451.18	2500	2622.2	973.72	328.85	211	32.39
2007-08	24845.74	11566.91	2096.95	<b>3194.38</b>	2700	4080.61	1038.72	251.94	194	164.41
2008-09	25839.6	20662.86	2265.83	7032.58	2808	3377.63	965.24	205.34	201.76	6624.26
2009-10	28216	15851	3700	6916	3229	4470	1110	161	670	3733
2010-11	39517	26049	5129	11367	4476	7346	1334	265	705	6134
2011-12	47568	31528	5908	13759	5162	8892	1774	320	1310	7425
2012-13	54934	54162	6726	6298	5937	9540	2041	1882	1599	974
2013-14*	71414	52932	8744	6154	7718	9323	2653	1839	2079	952
<b>Grand Total</b>	<b>336092.5</b>	<b>252932.2</b>	<b>39232.17</b>	<b>57824.36</b>	<b>40282.69</b>	<b>51311.16</b>	<b>12827.36</b>	<b>5773.43</b>	<b>7871.11</b>	<b>26068.9</b>

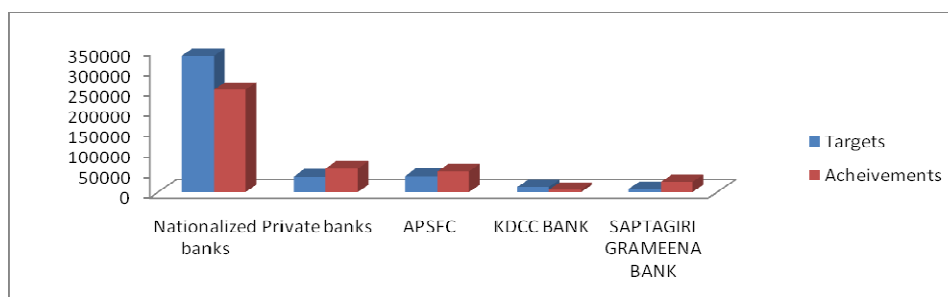
#Source: Economical survey 2013-14

\*provisional and calculated from the given data

The data specifies the picture of the financial status of small scale industries in the Krishna district. The Figure 4 indicates that all the banks except nationalized banks have good in achieving the targets towards SSIs. But in practical there are many complications from private banks as

- Varied interest rates from bank to bank
- High interest rates
- Low targets
- Financing is Limiting to particular sectors
- No finance by without surety

- Own policies and less responsibility
- No proper communication with SSI association etc.,



**Figure 4: Targets and Achievements of Credits to the SSI Sector in Krishna District by Various Financial Institutions**

Accepting all the above facts it is to observe the backwardness of the nationalized banks in achieving the targets in particular Krishna district. Particularly from 2010 onwards no such targets are achieved and there is huge variation in between the targets and achievements.

- In nationalized banks and in KDCC bank there is a decrement in achieving the targets may be due the reasons of
- high rate of interest
- problem of repayment of loan
- Failed to get the loan.
- The banks and financial institutions do not show interest in financing new entrepreneurs.
- The procedure of taking both term loan and working capital is so cumbersome
- Lack of proper co-ordination among financial institutions, promotional agencies
- Lack of awareness among the entrepreneurs

## SUGGESTIONS AND RECOMMENDATIONS

The present study begins with the evolution of SSIs in India, its importance and role of banking sector in the SSIs development - financial support in particular. It is further indicates the total number of working enterprises, number of new units established year wise and the financial allocations by all the financial institutions.

There is a considerable variation in targets and achievements for the industrial development and some factors were identified for the decrease of growth rate in small scale industries. For the better performance of banking sector towards Small Scale Industries we proposed some suggestions which are useful to the banks, entrepreneurs and academic people.

- The banks and financial institutions should provide both the working capital and term loans, without delay to the SSIs.
- The full working capital should be sanctioned at an instance

- All the financial Institutions or group of banks should follow uniform policy of providing need-based finance to small units.
- Banks should provide project reports to the prospective entrepreneurs easily and at affordable cost.
- The banks and financial institutions should conduct specialized training programs and seminars not only for their staff but also for the borrowers to bring about better understanding and coordination between them.

## CONCLUSIONS

In the present communication deals with the evolution of SSIs in India, its importance and role of banking sector in the SSIs development - financial support in particular. It is concluded that the total number of working enterprises, number of new units established year wise and the financial allocations by all the financial institutions indicates that there is a considerable variation in targets and achievements for the industrial development which is due to the financial deficiency. So, the supply of credit is one of the important components for SSIs which means timely feeding to SSI otherwise it may causes to side effects at any stage of life cycle. To avoid the drawbacks in supply of credit to SSIs, banks should be more effective and be cautious while providing necessary financial assistance for various activities of SSIs.

## REFERENCES

1. Vasant Deasi.(1983). Problems and Prospects of Small Scale Industries in India. Mumbai: Himalaya Publishing House
2. Deasi S.S.M. (2002). Industrial Economy of India. New Delhi: Himalaya Publlishing House
3. Bansal S.K. (1992). Financial Problems of Small Scale Industries. New Delhi: Anmol Publications
4. Government of India. (1971). Small Scale Industries: A Guide and Reference Hand Book. New Delhi: Nabhi Publications.
5. Dr. A.S.Shiralashetti. (2012). Prospects & Problems of MSMEs in India-A Study. International Journal of an Multidisciplinary & Academic Research, 1(2), 1-7
6. Bala N. (2007). Economic Reforms and Growth of Small Scale Industries. New Delhi: Deep & Deep Publications.
7. Datt, R. & Sundaram, K.P.M. (1999). Indian Economy, 39th Edition. New Delhi: S Chand & Company.
8. Dr. Babar S. N. –“ Small Scale Industries & Economic Development: Special Reference to India”- Indian Streams Research Journal-Vol. II-Issue III/Apr. 12.
9. Ministry of Agro & Rural Industries
10. [www.onlinejra.co.in](http://www.onlinejra.co.in).
11. [www.msme.org.in](http://www.msme.org.in)
12. [www.shodhganga.inflibnet.ac.in](http://www.shodhganga.inflibnet.ac.in)
13. [www.rbi.org.in](http://www.rbi.org.in)
14. [commerce.gov.in](http://commerce.gov.in)